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CENTRAL INTELLIGENCE GROUP

INTELLIGENCE REPORT

COUNTRY Hungary

SUBJECT Hungarian Economic Conditions

~~CONFIDENTIAL~~

This document is hereby regraded to CONFIDENTIAL in accordance with the letter of 16 October 1978 from the Director of Central Intelligence to the Archivist of the United States.

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SUPPLEMENT

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ORIGIN [redacted]

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1. The economic situation in Hungary appears favorable with the currency apparently stabilized for the present. There is some trading of minor money at 13 to 23 forint per dollar among persons needing foreign currency for trips abroad.

   The public is relieved at the passing of the inflation chaos but it is not confident enough save money. The savings accounts on 22 October totalled 5,300,000 forint against 740,000,000 in circulation.

2. The Government has reduced the exorbitant costs of public utilities and is lowering consumers goods prices by edict. Recent increases in the cost of social security from 12 to 18 percent is reducing the state income in face of a sizeable impending deficit. Economists and financiers express a fear that the budget is being unbalanced too rapidly; they predict slow inflation within eight weeks.

3. With some exceptions, food is plentiful and workers are able to buy at least the minimum necessities. However, an unexpected Soviet demand for 485,000 quintals of wheat has made the bread situation serious, with rationed flour now being mixed with 15 percent corn and ten percent pea. White wheat flour on the free market is selling at six forint per kilo against the official price of 1.40. During October white flour coupons can be exchanged only for sugar and oil. Onions are selling at two forint against the official rate of .43, eggs sell for 1.20 against the official .38, and potatoes were not available at any price between 20 and 25 October.

4. Eggs and poultry are reported to be plentiful, but there is a complete lack of fodder which is forcing peasants to slaughter their milk cows.

5. Transportation is improving and the trains are running on schedule. Coal production is being forced by unorthodox cutting methods which will mean decreased production within six months. Industrial concerns are producing despite high costs in the hopes of cutting costs by increased production.

6. Loans are now obtainable although they are limited to a period of 40 days. Manufacturers fear that many of their number will have to cease operation within 60 days because of a probable inability to offset their present losses without more liberal credit terms.

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ADSO	x	A DEP.	x	FBT	SPDF	x	VTO			
DADSO		FBK		FBV	SPDS		B DEP.			
EXEC.		FBL		FBX	SFDT		?CB		OCL	
CONTROL		FBM		FBZ	SCO				Z, Ge, L, K	x
PLANS	x	FBP x	x	SPDA	TRB	x	CTRR			

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7. The public is willing to pay any price for certain badly needed articles, but there is an inability to buy freely at prevailing price levels. The textile industry has a surplus of urgently needed yardgoods and is trying to find an export market which is practically impossible at the present exchange rate.

8. Foreign trade has been virtually restricted to barter deals. Hungary is exporting wine, poultry, eggs, and petroleum products for leather, ore, coal, coke, lard and sugar. The Government is aware that an exchange rate modification is needed, but it fears that any move in this direction would undermine confidence in the forint. An export subsidy is likely to be introduced in the very near future.